



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

July 28, 2010

Tony Crea
Director, Business Human Resources
Abbott Diabetes Care
1420 Harbor Bay Parkway, Suite 290
Alameda CA 94502

Dear Mr. Crea:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET05-0219 for the period January 21, 2005 through January 20, 2007.

Our report identifies a balance payable by ETP to Abbott Diabetes Care in the amount of \$8,430. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Stephen Runkle, Audit Manager, at (916) 327-4758.

Sincerely,

Original signed by

Stephen Runkle
Audit Manager

Enclosures

cc: Phillip Herrera, Managing Partner, Herrera & Company

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ABBOTT DIABETES CARE

Agreement No. ET05-0219

Final Audit Report

For The Period

January 21, 2005 through January 20, 2007

Report Published July 28, 2010

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TABLE OF CONTENTS

	<u>Page Number</u>
AUDITOR'S REPORT	
Summary	1
Background	2
Objectives, Scope, and Methodology	2
Conclusion	3
Views of Responsible Officials	3
Audit Appeal Rights	3
Records	3
 SCHEDULE 1 - Summary Of Audit Results	 5
FINDINGS AND RECOMMENDATIONS	6
 <u>ATTACHMENTS</u>	
ATTACHMENT A - Appeal Process	
ATTACHMENT B - Table of Disallowed Trainees	

AUDITOR'S REPORT

Summary

We performed an audit of Abbott Diabetes Care's Agreement No. ET05-0219, for the period January 21, 2005 through January 20, 2007. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit fieldwork was performed during the period December 8, 2008, through December 11, 2008, except for Finding No. 2, for which our report is dated May 7, 2009.

The Employment Training Panel (ETP) paid the Contractor a total of \$359,454. Our audit noted 36 trainees with unsupported class/lab training hours, 3 trainees who were not employed in an eligible occupation, and 1 trainee who did not meet post-training retention requirements. We also noted an administrative finding for inaccurate reporting of trainee wage rates. Our findings resulted in \$32,558 in unsupported costs.

However, ETP auditor also noted an ETP Fiscal underpayment to the Contractor in the amount of \$40,986. This underpayment occurred because ETP reimbursed Abbott Diabetes Care at the normal rate of \$20 per hour for Advanced Technology training rather than the Critical Proposal rate of \$24 per hour, as approved by the Panel. As a result, our audit supported that the Contractor earned \$367,884 with a balance payable by ETP in the amount of \$8,430.

AUDITOR'S REPORT (continued)

Background

In 2004, Abbott Diabetes Care (Abbott), a company that produces blood glucose monitoring devices for diabetics, chose to locate its headquarters in Alameda. As of October 2004, Abbott had already grown to employ 415 full-time workers, up from its original workforce of approximately 300 Californians.

This is the first Agreement between Abbott and ETP. With innovation being the key to maintaining its global market share and supporting expansion of its manufacturing workforce, the company needed to continue to develop more advanced blood glucose monitoring systems. This commitment to continuing research and development of new products required Abbott to implement an extensive retraining effort involving its entire California workforce. In developing this training project, a training needs assessment was conducted across all occupations. That assessment revealed the need for training in areas such as problem-solving, design of experiments and quality control along with various other process improvement and management techniques. Therefore this Agreement provided for training in Business Skills, Computer Skills, Continuous Improvement and Manufacturing Skills, as well as training in Management Skills and Advanced Technology.

This Agreement allowed Abbott Diabetes Care to receive a maximum reimbursement of \$660,000 for retraining 550 employees. During the Agreement term, the Contractor placed 308 trainees and was reimbursed \$359,454 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of Abbott Diabetes Care. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that Abbott Diabetes Care complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Training documentation supports that trainees received the training hours reimbursed by ETP and met the minimum training hours identified in the Agreement.

AUDITOR'S REPORT (continued)

- Trainees were employed continuously full-time for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.
- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.
- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion

As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported a total earned amount of \$367,884. The Contractor was paid only \$359,454 during this Agreement. The balance of \$8,430 was underpaid according to the terms of the Agreement and must be paid to Abbott Diabetes Care by ETP.

Views of Responsible Officials

The audit findings were discussed with Tony Crea, Director, Business Human Resources, at an exit conference held on December 11, 2008 and in an e-mail dated July 27, 2010. On December 11, 2008, Mr. Crea had agreed to bypass issuance of the draft report and proceed to the final audit report.

Audit Appeal Rights

If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).

Records

Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records (including electronic records through the ETMS), books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date from the date of termination of the Agreement or three (3) years

AUDITOR'S REPORT (continued)

from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later.”

Stephen Runkle
Audit Manager

Fieldwork Completion Date: December 11, 2008, except for Finding No. 2, for which our report is dated May 7, 2009.

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET05-0219 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

ABBOTT DIABETES CARE

AGREEMENT NO. ET05-0219

FOR THE PERIOD

JANUARY 21, 2005 THROUGH JANUARY 20, 2007

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>359,454</u>	
Unsupported Costs:		
Unsupported Class/Lab Training	31,612	Finding No. 1
Ineligible Trainee Occupations	944	Finding No. 2
Post-Training Retention Requirement Not Met	-	Finding No. 3
Inaccurate Reporting	-	Finding No. 4
Total Unsupported Costs	<u>\$ 32,556</u>	
Less Underpayment to Contractor	\$ (40,986)	(1)
Total Amount Payable by ETP	<u>\$ (8,430)</u>	
Training Costs Allowed	<u><u>\$ 367,884</u></u>	

(1) (10,955.5 AT hours paid – 709 unsupported AT hours) = (10,246.5 AT hours) x \$4 per hr

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Training records maintained by Abbott Diabetes Care (Abbott) do not support paid training hours for 36 trainees. As a result, we noted \$31,612 in unsupported training costs claimed for these trainees.

Unsupported Class/Lab Training Hours

Title 22 California Code of Regulations (CCR), Section 4442(a) requires the Contractor to maintain and make available records that clearly document all aspects of training.

Paragraph 2(b) of the Agreement between ETP and Abbott states: “Reimbursement for class/lab and videoconference training for trainees in job number 1 will be based on the total actual number of training hours completed by training delivery method for each trainee, up to the maximum specified in Chart 1, providing the minimum and no more than the maximum hours are met. For computer-based training, each trainee must complete 100% of each CBT course and achieve competency in course. Reimbursement shall be for the standard number of hours to complete the course ...” Exhibit A, Chart 1 of the Agreement requires that Job No. 1 trainees complete between 24 to 200 class/lab hours.

Paragraph 4 of the Agreement allows the Contractor to document all training utilizing electronic records in place of paper-based records through an Electronic Training Management System (ETMS), which is required to produce electronic printouts by trainee which document all aspects of training, including: 1) Trainee name, 2) Instructor Name, 3) Training dates, 4) Training hours, 5) Type of Training, 6) Course Title, and 7) Training Delivery Method.

Exhibit A, Paragraph VI. A. of the Agreement states, “Contractor shall provide training pursuant to the Curriculum in Exhibit B.” Exhibit B of the Agreement includes one approved CBT course, “GQS Corrective and Preventative Action,” which required a standard time of 1 hour to complete.

Exhibit A, Paragraph VI. D. 1 – 3 of the Agreement requires that classroom training be provided under the constant and direct guidance of a qualified trainer and that laboratory training be conducted under the direction of a laboratory trainer. Computer Based Training (CBT) occurs when a trainee uses a computer to access and learn training material through computer-associated media. This Critical Proposal provided for class/lab reimbursement rates of \$16 per hour and \$24 per hour for Advanced Technology (AT) class/lab training (*As noted in the Summary section of our report, ETP actually paid only \$20 per hour for AT hours submitted by Abbott*). CBT was to be reimbursed at \$8 per hour based on the standard number of hours required for course completion.

FINDINGS AND RECOMMENDATIONS (continued)

ETP auditor found that electronic record keeping reports maintained by Abbott and/or paper based rosters, which were maintained by Abbott only on a limited basis, do not support reported training hours for 6 trainees. Training hours for these trainees were unsupported primarily due to courses, training dates, and hours missing from electronic record reports, but these hours were also not supported by any paper rosters maintained by Abbott that were reviewed by the auditor as secondary documents.

Furthermore, for 31 trainees, Abbott training records showed that the Contractor incorrectly submitted self-directed, computer based training courses for reimbursement in varying per trainee amounts ranging from 40 to 80 hours of class/lab or Advanced Technology training hours. Training records provided by Abbott state that these courses were self-training courses, which were conducted without guidance or direction from qualified trainers. During our audit, representatives from Abbott's training department also verbally defined these specific courses as "read-only" training sessions that might take about one hour to complete. No assurance of competency is inherent to these self-directed courses. These "read-only" course titles are identified below:

- Quality Management System Manual
- Global Quality Management System Process
- Patient Assistance
- No-Charge Products to Managed Care
- Procedure Creating Technical Files CE Marked Device
- Process Design Control & Product Development
- Guideline, Design Control & Product Development Deliverables

Since these courses and their associated number of training hours were submitted in error by Abbott as class/lab or AT training hours and reimbursed by ETP as such, but do not meet the basic requirements for either reimbursement rate, they are disallowed. In addition, ETP cannot reimburse Abbott for these courses as CBT since these "read-only" computer based training sessions, along with standard course completion hours, were not included in the approved curriculum as provided for in Exhibit B of the Agreement. Furthermore, training records maintained by Abbott do not verify trainee competency as required for CBT to be reimbursable.

Finding No. 1 (Table A) included on the next page details the paid class/lab (CL) training hours, paid Advanced Technology (AT) training hours, audited CL hours, audited AT hours, total audited training hours and disallowed costs for each trainee noted above.

FINDINGS AND RECOMMENDATIONS (continued)

TRAINEE NO.	Paid CL Hours	Paid AT Hours	Audited CL Hours	Audited AT Hours	Total Audited Trg Hours	Disallowed Costs	Code
1	48.5	34.0	48.5	26.0	74.5	\$ 160	M
2	3.0	40.0	0.0	3.0	3.0	848	S
3	52.0	8.0	12.0	8.0	20.0	992	S
4	58.0	1.0	18.0	1.0	19.0	948	S
5	48.0	40.0	8.0	40.0	48.0	640	S
6	92.5	40.0	12.5	40.0	52.5	1,280	S
7	16.0	92.0	16.0	52.0	68.0	800	S
8	77.5	48.0	37.5	48.0	85.5	640	S
10	20.5	80.0	20.5	0.0	20.5	1,928	S
11	52.5		12.5		12.5	840	S
12	40.0		0.0		0.0	640	S
13	6.5	64.0	6.5	24.0	30.5	800	S
14	19.0	40.0	19.0	0.0	19.0	1,104	S
16	7.0	49.0	7.0	9.0	16.0	1,092	S
17	50.0	1.0	10.0	1.0	11.0	820	S
18	20.0	40.0	20.0	0.0	20.0	1,120	M
19	48.0		8.0		8.0	768	M
20	25.5	88.0	25.5	48.0	73.5	800	S
21	19.0	40.0	19.0	0.0	19.0	1,104	S
22	8.5	61.0	8.5	21.0	29.5	800	S
23	57.0	2.0	17.0	2.0	19.0	952	S
24	63.0	56.0	23.0	56.0	79.0	640	S
25	45.0		5.0		5.0	720	S
26	70.5	9.0	30.5	9.0	39.5	640	S
27	85.0		5.0		5.0	1,360	M
28	25.0	40.0	25.0	0.0	25.0	800	S
29	71.5	124.0	67.5	84.0	151.5	864	M, S
30	5.0	80.0	5.0	40.0	45.0	800	S
31	49.0	40.0	9.0	40.0	49.0	640	S
32	29.0	25.0	27.0	9.0	36.0	352	M
33	8.0	24.0	8.0	16.0	24.0	160	S
34	68.0	19.0	28.0	19.0	47.0	640	S
35	51.0	2.0	11.0	2.0	13.0	856	S
36	5.0	92.0	5.0	52.0	57.0	800	S
37	48.0	41.0	8.0	41.0	49.0	640	S
38	79.0	120.0	15.0	40.0	55.0	2,624	S
TOTAL						\$ 31,612	
Legend							
M - Course(s) Missing from Electronic Trg Record Reports and/or Paper Rosters							
S - Ineligible Self-Training Course(s)							

Note: Training costs for trainees below the required minimum of 24 total training hours are completely disallowed.

Recommendation Since Abbott received \$31,612 in unsupported training costs for these trainees, in the future, the Contractor should ensure that training records support hours submitted for reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 2 – Abbott claimed reimbursement for three trainees who were not
Ineligible Trainee employed in occupations specified in the Agreement. We
Occupations previously noted \$856 in unsupported training costs claimed for
Trainee No. 35 in Finding No. 1. Thus, we additionally noted the
remaining \$944 in unsupported training costs claimed for Trainee
Nos. 9 and 15 (\$384 + \$560).

Exhibit A, VII. A. of the Agreement states, “Employment for each trainee shall be in the occupations listed in [the Agreement]....” The occupations identified in the Agreement did not include Director, which has been identified by Abbott as a Senior Management and/or Executive level position.

Paragraph 5(i) of the Agreement states, “No senior level managers or executive staff who set company policy are included in ETP-funded training under this Agreement.”

The following table shows the job title during retention, as provided by Abbott, for the three trainees.

Trainee No.	Job No.	Job Title
9	1	Director Public Affairs/Communication
15	1	Director Business Human Resources
35	1	Director Advance Process Engineering

Recommendation Since Abbott received \$944 in unsupported training costs for these trainees, in the future, the Contractor should ensure all trainees are employed in the occupations specified in the Agreement and/or were not employed in senior level or executive positions, prior to claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 3 – Abbott payroll records show Abbott received reimbursement for the Post-Training Retention Requirement Not Met training costs of one trainee who did not meet post-training retention requirements. We previously noted \$640 in unsupported training costs claimed for Trainee No. 12 in Finding No. 1. Thus, we noted no further unsupported training costs claimed for this trainee.

Exhibit A, paragraph VII. A. of the Agreement states, “Each trainee must be employed full-time, at least 35 hours per week, with a single participating employer for a period of at least ninety (90) consecutive days immediately following the completion of training.”

Abbott reported that Trainee No. 12 completed a post-training retention period from April 16, 2005 to July 15, 2005. However, Abbott payroll information indicates that Trainee No. 12 terminated employment on April 29, 2005. Thus, Trainee No. 12 was retained for only 13 days of the 90 days required by the Agreement. The Contractor did not provide documentation that indicated this trainee voluntarily terminated employment.

Recommendation In the future, Abbott should ensure trainees meet post-training retention requirements prior to claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 4 – Trainee hourly wage rates reported by Abbott on invoices submitted to ETP were inaccurate. As a result, the Contractor did not comply with Agreement reporting requirements.

Inaccurate
Reporting

Paragraph 2(d) of the Agreement states, “Contractor shall submit invoices and necessary statistical data to ETP in a form and manner prescribed by ETP.” Actual, complete trainee wage rate information is required to verify compliance with Exhibit A, Paragraph VII. A. of the Agreement. This section states, “Each trainee must be employed full time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement].”

We documented actual trainee wage rates based on payroll documents provided by Abbott for 31 initial random sample trainees. Trainee wage rates reported by Abbott varied by 5 percent or more from actual wage rates for 20 of the 31 trainees (65 percent).

Recommendation In the future, Abbott should ensure all trainee wage rate data submitted to ETP is accurate and complete. Inaccurate or incomplete data may result in repayment of unearned funds, plus applicable interest, to ETP.

ATTACHMENT A - Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006